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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

IN RE CONNETICS CORP. SECURITIES LITIGATION	Case No. C 07-02940 SI **SUPPLEMENTAL DECLARATION OF CHRISTOPHER J. STESKAL IN SUPPORT OF DEFENDANTS' MOTION TO DISMISS PLAINTIFF'S AMENDED CONSOLIDATED CLASS ACTION COMPLAINT** Date: October 19, 2007 Time: 9:00 a.m. Dept: Courtroom 10, 19th Floor Judge: Honorable Susan Illston

I, Christopher J. Steskal, declare as follows:

I am an attorney admitted to practice before this Court. I am a partner with the law firm of Fenwick & West LLP, counsel of record for defendants Connetics Corp. ("Connetics"), John L. Higgins, Lincoln Krochmal, C. Gregory Vontz, and Thomas G. Wiggans in this action. I have personal knowledge of the matters set forth herein and, if called upon, could testify competently thereto.

1. Attached as Exhibit 42 is a true and correct copy of the transcript of Connetics' conference call on January 25, 2005. This document is quoted at paragraphs 241-246 of the Amended Complaint.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information and belief.

Executed this 4th day of October 2007, at San Francisco, California.

By: ____________/s/________________

Christopher J. Steskal

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FENWICK & WEST LLP
ATTORNEYS AT LAW
SAN FRANCISCO

EXHIBIT 42

CONNETICS CORPORATION

Moderator: Patrick O'Brien
January 25, 2005
3:30 pm CT

Operator: Good afternoon. My name is (Aileen) and I will be your conference facilitator.

At this time I would like to welcome everyone to the fourth quarter earnings call for Connetics Corporation.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks there will be a question and answer period. If you would like to ask a question during this time simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question press star then the number 2 on your telephone keypad.

Thank you.

I would now like to introduce our moderator, Mr. Patrick O'Brien. Sir you may begin.

Patrick O'Brien: Thank you and good afternoon everyone. With me for today's conference call is Tom Wiggans, President and Chief Executive Officer, Greg Vontz, Chief Operating Officer and Executive Vice President, and John Higgins, Chief Financial Officer and Executive Vice President.

I will begin the call by addressing our forward-looking statements. Following this I will turn the call over to Tom Wiggans. As a reminder the statements made in this call represent our judgment as of

January 25, 2005.

Our remarks and responses to questions during this conference call may constitute forward-looking statements including plans, expectations and projections all of which involve certain assumptions, risks, and uncertainties that are beyond our control and could cause our actual results to differ materially from these statements. Those risk and uncertainties include among others that the company may not be able to sustain profitability and that sales growth and future product revenues may be lower or expenses may be higher than our projections in any quarter.

We encourage you to take the time to review our recent filings with the Securities and Exchange Commission and the fourth quarter earnings release issued earlier today which presents these matters in more detail.

Connetics does not undertake any obligation to update any forward-looking statements made during this call.

At this point I'd like to turn the call over to Tom Wiggans.

Tom Wiggans: (Pat) thank you and thanks everybody for joining us today.

Two thousand four was a substantial growth and expansion year for the company. Not only did we post significant revenue growth and turn profitable the expanded revenue, income and cash flow especially from Soriatane allowed us to substantially expand our business and increase our commercial presence in the dermatology market.

If I could focus now on the fourth quarter, as we moved through the fourth quarter I was very pleased with the momentum that we saw particularly in two areas.

First, our increases in our existing product prescriptions for Luxíq, Olux, and Soriatane was very encouraging. Gregory is going to review these in more detail but in December we had all time hig for both Luxíq and Olux on our 100 gram skew which is the largest selling skew and we had the best month for Soriatane since we took over promoting the product in April. These trends are continuing

as we move into the new year.

Additionally, our managed care efforts across the board but particularly for Soriatane we believe are also beginning to make an impact.

Secondly, while it is obviously still early for Evoclin the initial impact of our sales and marketing efforts are very encouraging and in fact exceeding our expectations which we believe bodes well for our entry into the acne market. We recognize this market is very competitive. We know we need to devote considerable resources as well as expertise and bring competitive products to this market.

But as we prepare not only to expand the launch of Evoclin but prepare for our Velac launch our planning case is that there will be a competitive product for Velac but we have excellent data on Velac, we have now an expanded and very talented sales force, and we are competent that we will be successful in this market with our acne franchise and in particular with Velac.

As we move into 2005 our sales, product development and technology development aspects of our business have never been stronger.

In the sales area the trends as I mentioned above in all products are quite encouraging right now and our sales force - our expanded sales force appears to be making an impact already. I believe this speaks directly to the quality of the sales representatives we were able to hire as well as the continued promotional responsiveness of our products.

In the product development area our product pipeline is the strongest it's ever been. Our 4-2-1 product development model continues to gain efficiency and this year we will have four clinical programs and project that we will file two NDAs.

Third, in the technology area our technology platform continues to expand. For example Connetics Australia and our Center for Skin Biology here in Palo Alto are making an increasingly significant impact on our ability to formulate and assess new products and delivery technologies.

We believe that the commercial launch and royalties from the formulations of Lamisil and/or

Rogaine that we've licensed to Novartis and Pfizer sales could begin this year. And certainly if th occurs although royalties will probably be modest this year we would forecast substantial ramp up in those royalties next year.

And thirdly, our new VersaFoam Emollient Foam platform is a very exciting and good example of where we think we can take the business. The VersaFoam-EF is the basis for most of the next generation of our new products. The intellectual property around this VersaFoam formulation - the patents were allowed in '04 and present us with a very broad intellectual property position covering this delivery technology.

Even more exciting is the reaction of dermatologists and their patients that we've now taken these products into our Phase 3 clinical trials. At our investigator meetings and the early feedback from the clinical trial sites this formulation is as exciting to the dermatologists and the patients as we thought it would be.

As John will talk to you about our steroid franchise this year will approach that $100 million revenue goal that we set forth several years ago. We believe based upon the opportunity for the VersaFoam-EF, the new categories and the new markets that that can take us into just in our steroid franchise, this new Emollient Foam delivery technology has the potential to double our steroid franchise.

So we're very excited about the technology platforms such as the VersaFoam-EF and I have no doubt that Connetics Australia and our product development team are going to continue to come up with outstanding new technology platforms as well as formulate a continuous stream of products into those delivery systems.

Let me conclude with an outlook as we begin (2 '05) and kind of look through to 2005 and into 2006.

In the first quarter clearly our expanded sales force, the major initiatives that we have each year to kick off the year, and a full blown Evoclin launch, it's going to be a very busy quarter for us. However as we have in the past we believe that this investment early in the year gets 2005 off to a great start and with considerable momentum.

Those of you who have followed the story of the company over the past several years I hope continue to appreciate the operational and financial leverage and financial and operational potential of this business. We saw it in 2004 as we swung from a loss in 2003 to considerable profit in 2004. I recall back as other companies kind of moved towards profitability there's always that profit watch, are they going to be 1 or 2 cents profitable? We swung from a loss in 2003 to a profit of 52 cents in 2004. So considerable leverage and obviously a dramatic improvement in cash flow. We see it again in '05 as we forecast approximately a 35% increase in revenues and approximately a 70% increase in earning and we expect this to continue if not accelerate as we go into 2006.

Our ability to deliver innovative product development and substantial sales growth through a relatively modestly expanding organization remains a key part of our business model and we continue to deliver on this. Our goal a couple of years ago was to have a sales per sales rep goal of $2 million - $2 million per sales rep and as we looked last year towards the end of 2004 prior to our expanded sales force we were on track to exceed that goal. We now feel with our expanded sales force of 124 we can do 2-1/2 to 3 million per sales rep over the next couple years.

In summary we believe our business plan continues to be one of the most attractive and especially pharmaceutical sector. Our expanded sales force and increasing commercial presence, our ongoing product development model delivering innovative new products and innovative new technologies for dermatologists and their patients we believe will continue to generate substantial revenue, income, and value growth for our shareholders.

With that I'll turn it over to John.

John Higgins: Thanks Tom - going to give a review of the fourth quarter and full year financial highlights for 2004 and then walk through the guidance we've provided in a little more detail in our press release for 2005.

Fourth quarter results, we're very pleased with the revenue mix. Olux, you know, the product line came in at 16.3 million, Luxíq 6.2 million, Soriatane contributed 17.8 million in the fourth quarter and Evoclin 2.9 million.

For the full year very pleased with again the contributions of all of our products. Olux on a full year basis 61.9 million, Luxíq 23.6 million, Soriatane rolled up at 53.3 million and Evoclin, again we just launched in the last couple of weeks of December, we reported 2.9 million as I indicated.

Gross margins, we finished fourth quarter with a 90% mix on gross margin.

In the fourth quarter as we alluded to on our third quarter conference call in October we anticipated signing the Distribution Service Agreements. We did that. We signed two agreements with two of our larger wholesalers. The accounting for this - the cost will hit our sales line. It will be booked as a discount to gross sales. The impact in the fourth quarter was very small.

Expenses, as we look at the fourth quarter expenses for SG&A came in at 22.8 million. As we look at the quarter it was a very important quarter. We (unintelligible) for the expansion of our sales force. We saw almost a full quarter of the sales force expansion cost, of course the Evoclin launch activities. We did book promotion fees for UCB, our co-promotion partner for our steroid products. In addition we also recognized about a $600,000 write-off for Soriatane which relates to Soriatane samples as well as marketing material that were for the samples as well.

In the Research and Development area we spent 5.7 million in the fourth quarter. This is a higher quarterly run rate than in earlier part of 2004. As we've discussed the last several months we have increasing and clinical activities that we expect to continue into 2005. In addition in this line we also had about a $500,000 write-off for Extina due to the non-approval letter we received from the FDA for that product in November.

Tax for the quarter was 459,000 or 7% on a pretax basis. Of our pretax profit that is - that 7% is the average for the full year.

We're pleased fourth quarter came in with earnings of 17 cents per share and on a full year basis we have posted a profit of 52 cents per share.

We finished the year with $76 million in cash. This includes the cash payment for the Velac

milestone. The cash actually was paid in the fourth quarter. In addition it includes a couple of million dollars in build-out cost for a new facility as well as receivables increasing with the launch of Evoclin.

Before I talk about '05 guidance just a quick review. We're pleased with our financial performance throughout the year. We started 2004 with revenue guidance - the mid point of 92 million and earnings expectation of 23 cents. We (unintelligible) early in the year and had raised revenues and earnings - our expectations a time early this year was 120 million in revenues and 34 cents in earnings. And obviously now we're pleased to report total rollup of revenues just over 144 million and 52 cents in earnings per share.

Now I'm going to move to guidance. I want to talk first about the full year for 2005.

We are guiding total revenues of 190 to $200 million. Our steroid line, Luxíq and Olux, we see that franchise growing at close to 10% making up nearly 50% of our revenue base. Soriatane we're forecasting approximately 20% year over year growth making up approximately 1/3 of our revenue and our acne product, Evoclin, which we just launched and Velac we expect to be launched mid year, making up the balance or roughly 20% of our sales. That amount for our acne franchise in 2005 we expect to be split roughly 50/50 between both Evoclin and Velac.

Royalty and contract revenue we forecast to be flat 2005 over 2004. We expect the royalty line to pick up in 2006 with the increase in royalties from both Novartis and Pfizer anticipated at that time.

Margin for the full year we're forecasting at 90% and when we break down expenses total operating expenses including both SG&A and R&D we expect to come in the range of 116 to 123 million.

SG&A as we look specifically at that area we're looking at 88 to 93 million in SG&A. Specifically we're capturing a full year of the expanded sales force, two product launches, although we launched officially Evoclin in December we're still investing significantly in the launch of that brand plus we'll have the launch of Velac. For the full year we'll five marketed brands with all the incumbent promotion materials and sampling. We have increased visibility in the dermatology community and higher expenses associated with our new facility.

In Research and Development we'll see growth year over year. Expenses are projected to be 28 to 30 million due principally to three Phase 3 programs that will be ongoing throughout the year. We anticipate filing two NDAs this year and also we have expanded formulation work ongoing with our pipeline.

With the expected approval of Velac in the middle of this year we will pay Yamanouchi a final milestone payment of $5 million. We forecast this will be a third quarter payment. We have looked at the accounting. We expect to capitalize this payment and amortize it over the life of the patent which is approximately ten years.

Total depreciation and amortization, the non-cash charge to the business, we expect to be 16 to $16-1/2 million on a full year basis. We're forecasting a tax rate of 10%, generating earnings per share of 88 to 92 cents on an if-converted basis. We have an outstanding convertible note. We're anticipating at that level of profitability we'll present on an if-converted basis. We're assuming 42 million shares and you would add back interest and loan cost of $2.3 million.

Now just to comment specifically to the first quarter here.

We're looking at revenue of 42 to $44 million. This is for the existing four products we're marketing right now, again, with gross margins averaging out at 90%.

Expenses we're looking at total operating expenses of 33-1/2 to $35-1/2 million. This is an increase over our fourth quarter expenses and this is consistent with the past three years. We have seen the first quarter has generated significant investment in the commercial side of our business in the last several years. This year is no exception notably now since we're launching Evoclin.

SG&A we're looking at 27 to $28 million in expenses. Again, this captures a full quarter of the expanded sales force, significant investment in the Evoclin product launch, four marketed brand, this is (unintelligible) major - several major medical conferences, pre-launch activity for Velac and in again higher expenses associated with the move to our new facility.

In the R&D area again as we invest in our trial activities we're seeing increased costs there as well. Forecasting roughly 6-1/2 to $7-1/2 million in expenses for Research and Development and we're looking at two Phase 3 programs ongoing throughout the quarter notably with the initiation of the Olux EF trial in the next several weeks. In addition we'll have expanded formulation work.

With the tax rate we're targeting of 10% we forecast earnings per share on a diluted basis of 1 to 2 cents for the first quarter.

Just my final comments, I want to put some perspective on the growth and progress we've made here in '04 as it relates to now our guidance for '05 and how that sets us up for 2006.

As Tom alluded to we are beginning to really enjoy leverage on our financial model, 2005 we're very excited about it. It is another year of exciting growth for us. In 2006 we see revenue driven by continued growth of Evoclin. We forecast enjoying a full year of Velac sales in addition to potential new product launches at the end of 2006. And this is matched with expenses that we believe will begin - the increases will begin to flatten year over year. The last couple of years we've seen tremendous investment in our commercial organization. We believe we're getting leverage off that.

As we look in '05 over '04 revenues grew in the mid 30% range. We forecast the revenue growth '06 over '05 to be consistent with that growth range at the top - on the top line. Expenses coming down. The last couple of years we've seen expense growth in the high 20 to 30% range year over year, '06 over '05 we expect expense growth to be in the 15 to 20% range. The tax rate will go up. As we move through our net operating losses we're forecasting tax in 2006 of a 20 to 25% range and we forecast that earnings growth in '06 over '05 will be equal or greater to the earnings growth we are guiding to '05 over '04.

With that I'll turn it over to Greg.

Greg Vontz: John thanks.

I'll kick off the - my comments first talking about our performance with our products in '04 and then I'll give a view ahead to '05 both on the commercial and product development sides of the business.

In 2004 we had a strong year for our steroid franchise as was previously mentioned. With Olux we enjoyed a 30% increase in revenues in '04 over '03. That was fueled by a 14% increase in Rx growth year over year. As the product reached its fourth year we hit our all time high for prescriptions in '04 generating 324,000 prescriptions in 2004 and Olux finished the year as the number one, most frequently prescribed and highest retail dollar generating super-high potency topical steroid. So Olux continues to be a strong product for us and as it moves into its fifth year looks to have continued growth and momentum.

With Olux we also enjoyed robust growth despite the fact this product is in its fifth year. Total revenues year over year increased by 21% supported by an 8% growth in Rxs.

In terms of the mid potency category Luxíq finished up in the dermatology segment as the number three most frequently prescribed mid potency topical steroid and number one in retail sales.

Now moving on to Soriatane we enjoyed a 9% increase in retail sales over Roche's ownership of the product in 2003. On an Rx basis we were slightly down but importantly I think we generated a lot of momentum going into the fourth quarter and as we have started into the new year as we look at our weekly data we are now hitting all time highs for the product. So we are encouraged that we have generated some momentum.

And we wrapped up our 2004 with a very exciting launch of Evoclin. Certainly our marketing and sales teams did a super job with this introduction. In the first two weeks of December including the holidays we were pleased to have generated 2000 prescriptions. That was generated by 650 writers so a very rapid adoption given the holiday timeframe. And as we are seeing the weekly prescription data coming in in January we're seeing very, very strong growth trends for Evoclin. To put that in perspective it appears right now that we are on pace with Evoclin to exceed the prescription adoption rate for Olux and Olux was roughly twice as fast as Luxíq so we're certainly very encouraged by these trends.

With that let me turn my comments now towards the year ahead and 2005 and how we see the commercial business unfolding, what our views are on the products, and then I'll conclude talking

about our product development activities.

We really came off a lot of momentum in the fourth quarter with the expansion of our sales force. We've really seen an uplift in our prescription trends and are very excited about the momentum we bring into the first quarter.

As John also mentioned the first quarter is very, very busy for us. It's a time of a lot of conferences. It's our national sales meeting. We're coming up to the AAD in a few short weeks here in February as well as really focusing on the launch of Evoclin so a very, very busy, busy time for us. But as we look ahead to the business we continue to see solid growth for our steroids. John had mentioned previously that we're looking for growth in the 10% range and as Tom had previously mentioned at the JP Morgan conference one of our corporate goals is to replace UCB going forward. So we continue to be encouraged by the potential for our steroids.

In specific as we look to the future Luxíq is now a maturing brand and with the introduction of Velac in the second half of the year we will no longer be actively promoting Luxíq. But it will be promoted in the PCP space as we see there is continued growth potential for the product there.

Olux has continued growth potential - robust growth potential we believe in '05. We have some pretty exciting new data that will be coming out on the product with regards to use concomitantly with Dovonex. We think that will continue to fuel growth as well as our expanded sales organization and so with the whole sales organization supporting Olux in 2005 we look for robust growth of the product.

In terms of Soriatane for '05 we continue to believe that a generic competitor is unlikely to appear in '05. That is our planning strategy in case at this point and we look to fuel growth of the product in '05 really based on two fronts.

We've made a lot of progress first and foremost on the managed care side of the business. Our managed care group has been very active and very quickly has taken us from a previous level of no contracts with Roche to a point where we now have more than 100 million lives under contract and we expect that number to exceed 200 million by the end of the first quarter.

Importantly, 2/3 of these lives are on second tier and probably most significant is we're projecting now by end of the first quarter that we will have between 60 and 65 million lives under step care therapy requiring patients first to undergo three months of treatment with Soriatane before they would be eligible for a biologic. So on the basis of those two elements and the expanded sales force support of Soriatane we're optimistic for a strong year in '05 with Soriatane.

As we also kicked off the early part of this year with a lot of focus on Evoclin it will continue to be number one in terms of the promotional position for our sales organization. Evoclin is an exciting brand. We have some very interesting new data that's going to come out at the February AAD.

One of the pieces of data that's already getting some traction with Evoclin is the now proven ability of the product to be compatible with Benzyl Peroxide. We're hearing a lot of good feedback from physicians about how patients are adopting the vehicle, how it's working for them, and how they're applying it concomitantly with BPO. So stay tuned on Evoclin. We look for more good things to come and I know our sales force is going to do a super job there.

On the Velac front as Tom mentioned preparations are completely underway for getting ready to launch this product and as part of our launch strategy we have worked out a - a kind of a pulse release of clinical data. We're very excited at the upcoming AAD meeting in New Orleans that of the 11 abstracts that we have submitted and have been accepted 5 of those are unique to Velac. And those abstracts highlight some brand new data that will play a critical role in supporting the label for this product. So stay tuned when that data comes out - very, very exciting news for this product.

We additionally have another tranche of data for Velac scheduled to be out at the summer AAD timed to coincide with the launch of the product so a lot of attention and energies by our marketing team and sales operations group being focused on preparations for Velac.

Just to conclude, our forward-looking thoughts in '05 on the product mix, we previously had talked a little bit about where we are with Extina. We're going to be meeting with the FDA in the very nea future to discuss requirements and what the process might look like for product approval. Once we have more clarity on the requirements and our decision we'll update you on our plans for Extina.

Let me just conclude my remarks before I turn it back over to Tom with a quick discussion of what 2005 looks like for us on the product development front.

It will be our busiest year in the history of the company in terms of product development. We're going to be developing three products specifically in '05, that is Olux, Desilux, and Calcipotriene. All of those will be in our VersaFoam-EF emollient vehicle. To complete that development work it's going to require us to conduct four Phase 3 clinical programs. In addition to that we'll be completing a major Phase 4 study for Soriatane. We'll be filing two NDAs and anticipate the approval of Velac. So a very, very busy year for our development organization.

In specific with regards to our Desilux program, our clinical operations group has done a superb job. We are more than halfway completed with our enrollment into the Phase 3 program. We would expect to file an NDA for this program before the end of the year and to look for a second half of '06 approval of Desilux which will be our first entry into the low potency topical steroid market.

Also in regards to our Olux program we had a very positive meeting with the FDA late last year. We now have two Phase 3 programs ready to get underway eminently. Those are in both a topic dermatitis and psoriasis which will bring us an even broader label we intend than that with Olux in our ethanolic foam. And so I think as we see the potential for these products they truly are significantly larger than those with our hydroethanolic products today.

And then lastly as we mentioned previously we are on track to start our Calcipotriene VersaFoam-EF program in the third quarter and we'll give you more color on that as the year progresses.

Let me just conclude by talking about the state of play for our formulation candidates.

As you know last year late in the year we announced our clinical candidates. We'll plan to do that again this year but for now let me just say we have made some very, very exciting progress on some of the formulation candidates specifically on the acne front. These are breakthroughs that previously weren't thought possible so we're optimistic at this point we're going to have some very unique products for - to put into the clinical development pipeline in '06.

So with that let me now turn it over to Tom for concluding remarks.

Tom Wiggans: Greg, John, thank you very much. Thank you all for your time on the phone and for your support of the company and for those employees that are no doubt on the call thank you for your support. We've got a terrific employee base and as Greg alluded to our national sales meeting is eminently on the horizon as is our annual kick-off meeting. It's an opportunity for us to get all employees together, focus them on the 2005 corporate goals, and keep the momentum and the excitement of the company going.

As we alluded to - or not so subtlely alluded to the financial and the sales momentum in the company now we believe is considerable as is the commitment and the passion and the excitement of our employees. So it is certainly our objective to keep that momentum going as we kick off 2005.

Just a couple of calendaring items for your attention. Our Analyst Day this year will be April the 14th. We'll be moving it up a little bit. Our Analyst Day will be April 14th in New York. It's scheduled for a 10:30 start at the Mandarin Hotel, details to follow.

A couple of upcoming conferences, John will be at the Piper conference this week in New York presenting on Thursday. Greg will be at the Merrill Lynch conference on February the 8th and I will be at the (Leerink) conference in New York on March the 1st.

Again, thank you for your attention today and with that we'll open it up for questions.

Operator: At this time I would like to remind everyone if you would like to ask a question please press star then the number 1 on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from Ken Trbovich with RBC Capital Markets.

Ken Trbovich: Good afternoon gentlemen.

Was curious if you could help me out. On the quarter it seemed that Soriatane sales were a bit higher than we would have expected. Did you have international sales like you did during the earlier quarter this year?

John Higgins: Yes Ken we - and actually I want to just touch back on the numbers I cited. The Soriatane numbers for the fourth quarter and full year are slightly larger than what I previously reported on the call for the fourth quarter. They came in at 18 million as we indicated in the press release, the full year 53.6 million.

The mix absolutely does include the sales to our international distributor and our experience and obviously we've looked at Roche's history is fairly consistent with their history the last several years. Obviously we can't predict the timing entirely but it does account for sales to that channel in the fourth quarter.

Trbovich: Okay and I guess the reason I'm sort of curious is it seemed like you had that sort of catch up order in the second quarter. And this one I'm just not certain whether or not we've got a situation where we're not going to see another order for several quarters or do they have a pattern of ordering twice a year?

John Higgins: Right well we've only had the product for less than a year so it's hard for us to forecast exactly what to expect. Looking at the history with Roche it seemed to be a very steady ordering pattern. On top of that I will add and we talked at some length around the second quarter call there was about a good six to eight week transitional period where orders were not processed to us as channel as we were acquiring the (unintelligible). There was some question whether we would take over the relationship and whether they could - whether we could meet their supply requirement so that's why the second quarter was perhaps higher than expected.

As far as going forward obviously we're very pleased with the level of orderings here in the fourth quarter. Our general guidance that we've given for '05 would reflect what we expect including that channel in '05.

Ken Trbovich: Okay and in terms of that 20% step up how much of a price increase does that include? So how

much is volume versus price and the reason I'm asking I'd like to go back to Greg and ask him to repeat something if I can after you answer that one.

John Higgins: Very briefly Ken I'll say although we've given some direction in terms of the '05 mix we do not comment on the mix between price and volume. Clearly we expect all of these brands to grow on a volume base in 2005.

Ken Trbovich: Okay and if Greg could just step back to the comment about the step care therapy. It went through rather quickly on the call and I would appreciate it if you could go back and explain what proportion of the patients are actually under step care therapy and when that process began? I'm looking at the scrip data on a monthly basis and December's numbers were actually down from the year prior. So I'm just trying to get a sense as to whether or not this is actually a trend which has just begun or one that started perhaps in the fourth quarter and it's building now.

Greg Vontz: Ken let me share with you a little more detail on this.

Most of our contracting came into play late in the fourth quarter. As we wrapped up the year we probably finished up with a little over 30 million lives under step care. That momentum though with our contracting continues pretty briskly right now and we would expect as I said to wrap up the first quarter somewhere in the neighborhood of 60 to 65 million lives and that will probably be the peak under step care therapy...

Ken Trbovich: Okay.

Greg Vontz: ...for us.

Ken Trbovich: So it really is a building trend?

Greg Vontz: Yes we certainly believe so.

Ken Trbovich: Okay thank you.

ator: Your next question comes from Deb Knobelman with Piper Jaffray.

Deb Knobelman: Hi guys.

Two questions, my first question is on your SG&A guidance for '05, you know, I noticed the guidance for the first quarter which includes obviously mostly a product launch, et cetera, is pretty high. I'm just wondering if the Q3 number should also come up accordingly because - have you anticipate launch Velac at that time it will sort of be lumpy or if we're going to see a progression over the course of the year?

John Higgins: Yes we aren't giving detailed quarterly guidance. I think generally your analysis makes sense. Clearly there's a - perhaps an increase in the period expense around the third quarter as we expect to launch that brand. That is such a substantial product.

Specifically we are already incurring pre-launch expenses - excuse me. That is hitting now. It will hit in Q2. So it would smooth that out a bit.

Specific to the first quarter expenses they are large as it relates to prior years, also as I indicated the growth over the last quarter but really speak to the fairly significant increase in our commercial operations as we move into 2005.

Deb Knobelman: Okay great and then the second question, I mean, I'm sure you get this question all the time but just so we all hear what is your current understanding of the status of any potential competitors to Velac and any timing on that? And what is in your internal plan for such a competitor?

Tom Wiggans: Believe it or not it's the first time we've got that question.

Deb Knobelman: Oh, oh.

Wiggans: No I'm kidding. We do get it all the time.

Well as I alluded to in my comments Deb we know a lot about our product and that's all we know

anything about frankly and we're very confident in the data set that we've got. We believe it's one of the strongest data sets for an acne product submitted to the FDA and we're obviously very excited to launch it.

While we have no specifics on competitors I think from a prudent standpoint it is our assumption - based upon what we've heard in the market it's our assumption that there will be a potential competitor to Velac and that's the way we've modeled our commercial activities and our sales forecast.

I have a lot of confidence in the strength of our data. I've got a lot of confidence in the strength of our sales force and although we have anticipated in our A scenario if you will a competitor in the market we continue to believe we'll be very successful with our product.

Deb Knobelman: Okay so your '05 guidance does include a competitor launching in 2005?

Tom Wiggans: That is correct.

Deb Knobelman: Terrific.

Tom Wiggans: That is our base case assumption.

Deb Knobelman: Okay. Thanks so much guys.

Operator: Your next question comes from Elliot Wilbur with CIBC World Markets.

Elliot Wilbur: Good afternoon.

Just a quick clarification question for John on the EPS guidance for '05. The 88 to 92 cents does include the $5 million payment to Yamanouchi, is that correct?

John Higgins: It does but just a very, very small proportion. The 5 million will be a cash payment we expect to go out the door so to speak in the third quarter. Originally we had anticipated that like our last

milestone payment this would be charged as a period expense, an in-process research and development payment, that would be charged to our operating expense. But given the fact that it is a milestone based upon the approval and therein the expected eminent launch of the product it actually will be capitalized and be amortized as an expense over the life of the patent. The patent expires in the year 2014 so we'll just have a couple of hundred thousand dollars that will actually hit our amortization line in the second half of 2005.

Elliot Wilbur: Okay and then taking a look at the total revenue guidance. You guys have brought up kind of the low end of the range that you initially outlined at your analyst meeting last year and just sort of going through those numbers and kind of comparing that to our own expectations and the expectations that seem to be out there on the street. I guess it, you know, and based on your product guidance it looks like you're maybe a little bit, you know, quite a bit more bullish on the acne side of the business than seems to be reflected in the street numbers and, you know, given there's roughly a 10% price increase on Luxíq and Olux late in the year seems like your guidance is - there is somewhat conservative. So I'm just trying to maybe get a little bit better color sort of on, you know, that observation.

Tom Wiggans: Well I'm not quite sure how to answer that Elliot, I mean, we try to give our - we try to give the best clarity we can on our forecast. Yes we brought up the bottom end of the range primarily at this time due to the trends we're seeing in the market and the impact of our expanded sales force. So as John said it continues to be our goal, although clearly Olux and Luxíq are maturing in their lifecycles, it continues to be our goal to increase volume growth across every product in our product line. It's going to vary obviously considerably among the products but even Luxíq and Olux we are anticipating volume growth this year. But I guess specifically it is a function more than anything else of the expanded sales force.

Elliot Wilbur: Okay and then just one last question. Is there anything at this point that we can say further about US patent number 275 license to Medicis that supposedly your, you know, like product may infringe upon or just I guess there's maybe not much to say at this point.

Tom Wiggans: No I don't think there is. I think our press release said it all. We were notified. We're confident of our patent position.

Elliot Wilbur: Okay. Thank you.

Operator: Your next question comes from Michael Tong with Wachovia Securities.

Michael Tong: Hi. Thanks for taking the question.

Just a couple quick ones. I notice accounts receivables went up to 25 million versus 13 million in Q3, was wondering John if you can give us some color on that. And secondly, if I look at your EPS guidance during the analyst day excluding the Velac payment was about 90 cents to a dollar and now we're seeing 88 to 92 cents. I was wondering between then and now what has changed to cause that change in terms of your EPS guidance? And finally, was there a pipeline fill in Q4 for Evoclin that's not reflected in product sales?

John Higgins: Right okay. Just to break it down the - in terms of accounts receivable at year-end they were a bit higher than obviously the prior quarter.

I think the two principal factors there are one, the launch of Evoclin. Again, the sales of that product principally did not hit until the second or third week of December and - which is significant and I think you'll see an AR bump with the launch of any production within the quarter it is launched.

Secondly, we as I indicated entered a couple of Distribution Service Agreements. They're with two of our larger wholesalers and it was about a five to six week process where although it was a collaborative dialog in terms of looking at inventory level and making sales to those channels several orders were placed in December.

Specific to our guidance I think what we're very excited about first in terms of revenue and earnings is our outlook for 2005. It is we think consistent if not better than what we were expecting six months ago.

As far as the earnings number that you cited you're right. Initially we did anticipate that Velac would hit the 10 to 12 cent charge in '05. In fact we are able to frankly reinvest that money in our

business without taking any impact - without having any impact on our earnings. That will not be spread over the ten-year life of the patent. We're able to invest not only more in our sales force but in our marketing activity and this is significant. We are clearly managing some very significant dermatology products. We think Evoclin will be a big success and are quite excited about the launch activities for Velac.

So we are redistributing our expenses although we've not given detail in the past. We have redistributed our expenses and are very pleased with the business we're funding as well as the profits this business will generate in 2005.

Tom Wiggans: Right. Michael could you restate your question on the fourth quarter Evoclin number?

Michael Tong: Yes was there Evoclin shipment that was - that weren't recognized in the 2.9 million in sales?

Higgins: No, no. No we - the commercial team and clearly having launched several products very sophisticated in terms of our stocking analysis. We want to make sure there's appropriate level of stocking at the retail pharmacy level, did some careful calculations, and no essentially what we have booked is what was shipped.

Greg Vontz: (Mike) let me just add one other comment there. We're already very encouraged I think by the number of reorders that are being placed already for Evoclin so hopefully this will soon become too small a base and we'll see a lot of growth to support demand in the channel.

Michael Tong: Okay great. Thank you.

Operator: Your next question comes from David Buck with Buckingham Research Group.

David Buck: Yes good afternoon and thanks for taking the questions.

A couple of questions for either Tom or Greg. First on the signing of the inventory or Distribution Services Agreements which I guess is the (unintelligible) term these days, can you give us a sense of where your trade inventories are going to be targeted going forward and where they are versus that

target? And I've got a couple of follow-ups.

Tom Wiggans: Well with regard to the inventories I think other than as John explained while we were negotiating these, you know, there were some orders that were held and then were shipped after the agreements were placed. Our inventory levels during this transition period were not appreciably different I think once we signed these. The good news is that we got probably better visibility than we've ever had on the inventory levels and that's obviously very useful to us but in the past - versus our historical inventory levels they are fundamentally unchanged to these two wholesalers as a result of the DSAs.

David Buck: Okay and where would you be targeting - is it one month, a half a month, one and a half months?

Tom Wiggans: No we target actually around two months, in some cases maybe a little bit more than that. I think if you look at the volume of our products and the distribution throughout the different distribution centers or the wholesalers and into the retail level, you know, we've concluded that we need a little higher inventory level to support the retail channel on, you know, these products that are, you kno this is not - there's not a Lipitor velocity drug through the distribution channel. Having said that, our inventory levels have stayed relatively constant over the last few quarters if not year or so and when we got the additional visibility on the channel we were pretty pleased with what we saw.

Greg Vontz: Tom let me just add a comment there for you.

David historically we work very hard certainly in the area prior to having the DSAs in place to make sure that the wholesalers did not speculate on us and did not get ahead of us on our Rxs.

The one thing we did see is when we were really pushing that down quite a bit as our inventories got down to the four week mark we begin to see a pretty high frequency of stock outs. I think as Tom said there's now a pretty fair volume in the channel with our products so we're pretty happy with where levels are at in terms of making sure that we have products there when patients show up at the pharmacy.

David Buck: Okay and one for Greg. As we look at 2005 any changes that you're seeing for the managed care side in terms of co-payment level, formulary acceptance, et cetera?

And just a clarification and follow-up to one of - I guess Elliot Wilbur's question. The price increases that you had in the fourth quarter was there anything else besides the 9% I believe for Olux and Luxíq in October?

Greg Vontz: David generally we don't - really don't comment on our price increases but your assumptions are correct.

With regard to the managed care environment I can speak to all of our products. If you have a specific product question I can give you more detail there.

Right now that I think the trends in general independent of products are for managed care systems to increasingly move cost to their patients. So I think what you're going to see over time is more and more of the co-pay especially at level - tier two and tier three seeing those increase. But for the time being they don't seem to be moving too quickly. About 2/3 of our products are currently contracted at the second tier and we would anticipate that to continue for the rest of our contracting activities.

We have about 160 million lives under contract total right now and will - once at the conclusion of our activities at the end of Q1 we'll probably have close to 200 million lives at that point. And we would estimate about 2/3 of that will be at the second tier.

David Buck: Okay and if I look at Olux, Luxíq, and Evoclin, what's the average co-payment for those?

Greg Vontz: Those are on tier two so it depends on each individual plan but probably a range of anywhere from 10 to $30 depending on the plan.

David Buck: Okay great. Thank you.

Operator: Your next question comes from Dave Windley with Jeffries & Company.

Dave Windley: Good afternoon gentlemen.

Is it possible to provide any additional color on where you stand in your discussions and negotiati on a replacement partner for UCB?

Tom Wiggans: It is a priority for us. As Greg alluded to it is a corporate goal this year. We reviewed those at the JP Morgan conference and specifically called it out. UCB will be our partner through March 31 so all I can say is stay tuned.

Dave Windley: Okay. Do your guidance numbers for 2005 assume a particular point in time at which you will have a partner in place?

Tom Wiggans: Our guidance for 2005 right now is based upon our current information and as we - if and when we sign up a partner we'll give you an update on that.

Dave Windley: Okay. John on the expense guidance is D&A buried in one of the two expense lines that you're guiding?

John Higgins: I'm sorry. Can you repeat the question again?

Dave Windley: Sure. Is D&A in - lumped in with SG&A in your guidance?

John Higgins: No. That is separate and again for the full year and 2005 we're forecasting 16 to 16-1/2 million for depreciation and amortization.

Dave Windley: Okay.

John Higgins: And just to come back as well to the revenue guidance question I believe you were asking of us. As it relates to the co-promotion partner clearly that is a corporate goal - presumably we're successful there. We'll announce the deal - the structure. The guidance we've given does not assume revenue from a co-promotion partner.

Dave Windley: So yes. It would assume that you get some tailwind scrip volume from the activities through March but that the royalty payments to a partner would cease at March?

John Higgins: That's right, I mean, the UCB contract - they are still actively promoting for us. We will have a promotion fee in the first quarter payable to UCB but their promotion activity will discontinue at the end of March.

Dave Windley: Okay and the last question dovetailing a little bit on Mr. Tong's earlier question on the AR. Would you - well generally speaking is there anything on - any movement that you would expect on the balance sheet that would skew cash flow results for 2005 above or below, you know, say what would be a normal level vis-à-vis net income?

John Higgins: No. No it's a clean and a fairly transparent business. We've identified the Velac milestone which will be a cash payment we forecast in third quarter. We have - as we anticipate moving, our lease expires in a couple of months, we'll move. We've invested several million in a build-out as well as had to pledge security deposits but aside from that no it's a fairly low - it's capital business for us.

Dave Windley Right and so you would expect to exit 2005 at about the same DSO level as you exit 2004?

John Higgins: That's correct. The last couple of quarters the DSO levels in fact have been below average. As we've grown the business we've got a very clean collection cycle. Historically we've been in the 20 to 25 day range but certainly very, very healthy DSO level.

Dave Windley: Okay. Thank you.

Operator: Your next question comes from Megan Murphy with Lazard.

Megan Murphy: Hi, good evening.

A question, maybe some color, on the clinical trials that we'll be looking at for this year. Can we get a sense of what's an NDA program, what's a 505 B2 program, and then maybe what kind of arms we're talking about in each of the trials specifically relative to placebo and non-inferiority, et cetera?

Greg Vontz: Yes Megan happy to respond to that. Just to give you some approximations on these trials. These

are all 505 B2s planned for the time being certainly for Olux and VersaFoam and Desilux. These versus placebo in this instance - in these trials. Enrollment is targeted roughly in the 5 to 600 patient range for all of the Phase 3 trials this year.

Megan Murphy: Great. Thanks very much.

Greg Vontz: Uh-huh.

Operator: Your next question comes from Mike Hearle with Lee Munder.

Mike Hearle: It's really just to clarify - I guess the clarifications on the '05 sales guidance and forecast but could you break out contribution from launched products of the 190 to 200 million? So meaning of that number, what's made up of the combination of Velac, Rogaine, and Lamisil in that number? Just really trying to get to an aggregate organic growth rate for the year.

John Higgins: Right. I'll comment on the royalty and contract line first.

We forecast that being relatively flat over 2004. We do have two dynamite partnerships with Novartis and Pfizer but we don't expect those royalty lines to materially grow until 2006. So our guidance when we give total revenue guidance, 190 to 200 million, that is principally all product revenue. As I indicated we're looking at our acne product comprising approximately 20% of that revenue guidance split fairly equally between Evoclin for a full year and Velac for a partial year.

Mike Hearle: Great, thanks.

Operator: Your next question comes from Donald Ellis with Thomas Weisel Partners.

Donald Ellis: Thank you. Most of my questions have been answered by this time - just a couple left.

Regarding Olux and Luxíq with roughly a 9% price increase in the fourth quarter of '04 and a 10% growth estimate for next year is it correct if we assume that your assumptions are for 1% unit growth for '05?

Tom Wiggans: Well, you know, let me answer that. Maybe a little more than that (Don), I mean, our price increases because of our managed care contracts there's not a straight flow through on that 9% so our yield is a little bit less than that.

Donald Ellis: Okay. Then regards to Soriatane I think you guys stated that your expectations for 20% growth '05 versus '04. Are we assuming that you're expecting the prescriptions to grow to make up most of that or is that mostly going to be price?

Tom Wiggans: Well, you know, as Greg said we don't prospectively comment on price increases. All we will say is that as I said on our third quarter call our expectation is we should see volume growth in Soriatane and we expect to see, for those of our sales force that are listening, we expect to see unit growth in Soriatane in 2005.

ald Ellis: Okay. Last question is about Soriatane. You guys made a comment on this call that you're not expecting generic competition for Soriatane in calendar '05. Can you let us know what gives you that level of confidence?

Greg Vontz: (John) as we've talked before with a number of folks we did an extensive amount of research in the diligence process for the acquisition of this product and that process gave us a lot of clarity on where respective manufacturers stood with their abilities to not only produce but to generate a bioequivalent form of the product.

One of the unique aspects of Soriatane is it goes through an intermediate processing step between the creation of the API and the capsule filling and that is unique and very critical to the bioavailability of the product. So we are of the mindset that that bioavailability issue has not been cracked as of yet in the timeframe where an ANDA would impact us in '05.

Tom Wiggans: So that, I mean, just to follow-on to that while yes if we don't have perfect information again our planning scenario is through '05 we won't see any generics. And if we - if that occurs Soriatane will have been and will continue to be an excellent financial and strategic acquisition for us.

Donald Ellis: Great. That's helpful. Thank you very much.

Operator: Your next question comes from Elliot Wilbur with CIBC World Market.

Elliot Wilbur: Yes thanks for taking the call. On Calcipotriene I guess it just seems to me like maybe there was an acceleration in that program based on your comments from last conference call and I want to make sure that it's - that's correct, that I did catch that and if so why?

Greg Vontz: Elliot it's a very, very exciting product. As you know the Dovonex - the active ingredients of (unintelligible) in the Dovonex product line right now have sales roughly in the $125 million range. The other thing driving this is frankly the patent landscape. The pivotal patents will expire in late '07 so this is timed to coincide to introduce a product shortly thereafter.

Elliot Wilbur: Okay so it's on track essentially with what you said last time.

Greg Vontz: Correct.

Elliot Wilbur: That's fair. Okay then one just additional follow-up question for John with respect to the EPS guidance. Does that include any impact from SFAS123 and then if you could just - I don't know if you - you probably don't have the full year number yet but if you have it handy just sort of year to date what the impact was?

John Higgins: Right. Elliot you're referring to the requirement to expense stock options. No it does not. As we indicated toward the end of our press release the guidance does not reflect the impact of stock option expensing. We expect we will begin to expense options as required in the third quarter and later on in the year we'll give more details how that impact - or how that will impact our company.

Tom Wiggans: Hello? Hello? Operator? Is anybody there?

Operator: Your next question comes from David Buck.

David Buck: Yes just a couple of follow-ups. First, the follow-up on the stock option question. In your current

option scheme and (unintelligible) can you just review John what the number would be in terms of EPS hits on a full year basis and obviously it's a half year but just remind us of that?

John Higgins: Right.

David Buck: And also if you have the cash flow from operations number and free cash flow for the fourth quarter that would be terrific.

John Higgins: Yes the nine month number which is from our 10-Q is just below $5 million total for 2004. When we file our 10-K of course we'll have the full year number but that is the nine-month value of our options for the first nine months of this year.

Your second question - I'm sorry, it related to...?

.d Buck: Just if you have the data - the free cash flow or cash flow from operations numbers for the fourth quarter and year?

John Higgins: David I'll follow-up with you. I don't have that...

David Buck: Okay. That's fine.

John Higgins: ...handy with me right now here.

David Buck: Okay. That's it for me. Thanks.

Operator: Ladies and gentlemen we have reached the end of the allotted time for questions and answers.

Tom Wiggans: Thank you all very much.

Operator: This concludes today's fourth quarter financial results.

END

PROOF OF SERVICE

The undersigned declares as follows:

I am a citizen of the United States and employed in San Francisco County, State of California. I am over the age of eighteen years and not a party to the within-entitled action. My business address is Fenwick & West LLP, San Francisco California, 555 California Street, 12th Floor San Francisco, California 94104. On the date set forth below, I served a copy of the following document(s):

SUPPLEMENTAL DECLARATION OF CHRISTOPHER J. STESKAL IN SUPPORT OF DEFENDANTS' MOTION TO DISMISS PLAINTIFF'S AMENDED CONSOLIDATED CLASS ACTION COMPLAINT

on the interested parties in the subject action by placing a true copy thereof as indicated below, addressed as follows:

Victor E. Zak
24 Oakmont Road
Newton Center, MA 02459

☒ **BY OVERNIGHT COURIER:** by placing the document(s) listed above in a sealed envelope with a prepaid shipping label for express delivery and causing such envelope to be transmitted to an overnight delivery service for delivery by the next business day in the ordinary course of business.

I declare under penalty of perjury under the laws of the State of California and the United States that the above is true and correct.

Date: October 4, 2007

/s/ Margaret E. Vertin
Margaret E. Vertin

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